

## Mandatory Evaluation Components

### Report 2019-03: Changing How North Carolina Controls Liquor Sales Has Operational, Regulatory, and Financial Ramifications

N.C. Gen. § 120-36.14 requires the Program Evaluation Division to include certain components in each of its evaluation reports, unless exempted by the Joint Legislative Program Evaluation Oversight Committee. The table below fulfills this requirement and, when applicable, provides a reference to the page number(s) where the component is discussed in the report.

N.C. Gen. § 120-36.14 Specific Provision	Component	Program Evaluation Division Determination	Report Page
(b)(1)	Findings concerning the merits of the program or activity based on whether the program or activity		
(b)(1)(a)	Is efficient	<p>The Program Evaluation Division found that providing the North Carolina ABC Commission with management tools for better oversight of local ABC boards <b>has increased profitability and efficiency of operations for most boards</b>. Since the ABC Commission initiated performance standards in 2011, local ABC board compliance with the standards has increased</p> <ul style="list-style-type: none"> <li>• the overall profit percentage of the ABC system from 8.5% to 11.2%,</li> <li>• the percentage of boards with profit margins of 5% or greater from 44% to 72%, and</li> <li>• the percentage of local ABC boards with operating margins that match or exceed private liquor retailers from 31% to 62%.</li> </ul>	8
(b)(1)(b)	Is effective	<p>The Program Evaluation Division found that <b>the ABC Commission and local ABC boards are effectively controlling the sale of liquor</b>. Among southeastern states, North Carolina collects the most public revenue per gallon of liquor sold, has the lowest liquor outlet density, and has the second lowest adult per capita liquor consumption.</p>	13–14
(b)(1)(c)	Aligns with entity mission	<p>The ABC Commission's mission is to control the sale, purchase, transportation, manufacture, consumption, and possession of alcoholic beverages in North Carolina. In 2008, the Program Evaluation Division found that North Carolina did not clearly define the mission of local ABC boards. In 2010, the General Assembly responded to this finding by defining the mission of local ABC boards as controlling the sale of liquor and promoting customer-friendly, modern, and efficient stores.</p>	5–6
(b)(1)(d)	Operates in accordance with law	<p>The ABC Commission and local ABC boards operate in accordance with Chapter 18B of the North Carolina General Statutes.</p>	5
(b)(1)(e)	Does not duplicate another program or activity	<p>Under state law, the ABC Commission is the only entity to oversee the sale of liquor in North Carolina, and local ABC boards are the only entities that can operate ABC stores.</p>	5–6
(b)(1a)	Quantitative indicators used to determine whether the program or activity		

(b)(1a)(a)	Is efficient	The Program Evaluation Division's efficiency determination is based on the profitability and operating efficiency of local ABC boards. Profitability is an important performance measure because higher profits allow boards to distribute more money to their communities. Controlling operating costs is a component of profitability because efficient boards are more likely to have higher profit margins.	8
(b)(1a)(b)	Is effective	The Program Evaluation Division identified three performance indicators for measuring the effectiveness of state government liquor regulation and <b>used them to determine effectiveness of North Carolina's ABC system for liquor:</b> <ul style="list-style-type: none"> <li>• <b>Public revenue per wine gallon.</b> This indicator measures how state government maximizes revenue from liquor sales by measuring the amount of public revenue collected per wine gallon of liquor sold in a state.</li> <li>• <b>Outlet density per 10,000 adults.</b> This indicator measures how state government regulation affects access to liquor sales outlets. Low outlet density indicates state government operates or licenses fewer outlets.</li> <li>• <b>Adult per capita liquor consumption.</b> This indicator measures how much liquor is consumed in each state by dividing the total amount of liquor (in wine gallons) sold by the number of adults. Low adult per capita liquor consumption indicates less liquor is being sold.</li> </ul>	12–13
(b)(1b)	Cost of the program or activity broken out by activities performed	During Fiscal Year 2016–17, expenses for the ABC system included <b>\$16.9 million for the ABC Commission and warehouse operations</b> and <b>\$171.1 million for local ABC boards' operating expenses and working capital.</b>	27
(b)(2)	Recommendations for making the program or activity more efficient or effective	Recommendations 1 through 7 provide opportunities to further modernize the current system for controlling liquor sales by <ul style="list-style-type: none"> <li>• directing local ABC boards located in counties with multiple boards to form merged ABC boards;</li> <li>• eliminating the purchase-transportation permit for liquor;</li> <li>• monitoring the selection of a new ABC warehouse contract; and</li> <li>• providing local ABC boards with more flexibility to charge delivery fees, serve special order customers, open ABC stores on Sundays, and offer in-store tastings of liquor products.</li> </ul>	44–48
(b)(2a)	Recommendations for eliminating any duplication	The Program Evaluation Division <b>did not find evidence of duplication</b> in wholesale and retail liquor sales by the ABC Commission and local ABC boards.	N/A
(b)(4)	Estimated costs or savings from implementing recommendations	None of the Program Evaluation Division's recommendations will require additional costs nor yield savings.	N/A